

REPORT OF EXAMINATION  
OF THE  
SECURITY UNION TITLE INSURANCE COMPANY  
  
AS OF  
DECEMBER 31, 2006

Participating State  
and Zone:

California

Filed June 20, 2008

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Los Angeles, California  
May 23, 2008

Honorable Alfred W. Gross  
Chairman of the NAIC Financial  
Condition Subcommittee  
Commissioner of Insurance  
Virginia Bureau of Insurance  
Richmond, Virginia

Honorable Morris Chavez  
Secretary, **Zone IV-Western**  
Superintendent of Insurance  
New Mexico Insurance Division  
Santa Fe, New Mexico

Honorable Steve Poizner  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

#### SECURITY UNION TITLE INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records and main administrative office located at, 601 Riverside Avenue, Jacksonville, Florida 32204. The Company's statutory home office is located at 4050 Calle Real, Santa Barbara, California 93110.

#### SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

This examination was conducted with the Company's two California affiliates, Fidelity National Title Insurance Company and Ticor Title Insurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; business in force by states; loss experience; escrow accounts; and sales and advertising.

### COMPANY HISTORY

The Company (formerly known as SAFECO Title Insurance Company) is wholly-owned by Chicago Title and Trust Company (CTTC), an Illinois Corporation. On June 17, 1998, CTTC was spun-off from its former parent, Alleghany Corporation, and became a wholly-owned subsidiary of an independent publicly traded company, Chicago Title Corporation (CTC).

On March 20, 2000, CTC was merged into Fidelity National Financial, Inc. (FNF). CTTC and all of its subsidiaries, including the Company, became subsidiaries under FNF.

On June 14, 2004, the Company contributed 100% of the stock owned in its subsidiary, Title Tax, Inc., to its parent, CTTC.

On September 27, 2005, the stock of CTTC was contributed to Fidelity National Title Group, Inc. (FNTG).

On October 18, 2005, FNF distributed 17.5% of FNTG's common stock to current shareholders of FNF, while retaining ownership of the remaining 82.5% of FNTG's common stock.

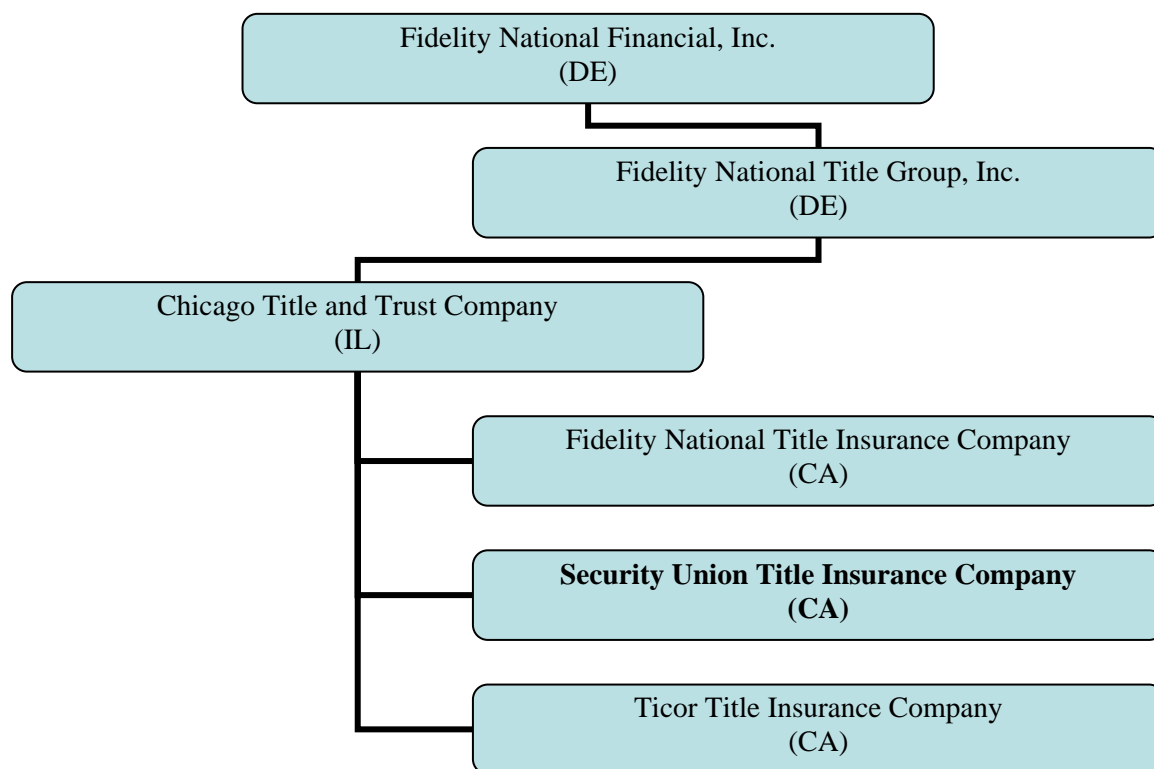
During 2006, FNF completed a corporate restructuring resulting in two separate publicly traded companies, Fidelity National Information Services and Fidelity National Financial, Inc. The restructuring was finalized on November 10, 2006.

During the examination period, the Company declared and paid the following ordinary dividends to its parent, CTTC:

<u>Year</u>	<u>Amount</u>
2004	\$13,158,355
2005	20,000,000
2006	<u>10,000,000</u>
Total	<u>\$43,158,355</u>

#### MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its California affiliated insurance companies, depicts the Company's relationship within the holding company system:



All ownership is 100%.

Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

#### Directors

##### Name and Residence

Erika Meinhardt  
Jacksonville Beach, Florida

Anthony John Park  
Jacksonville, Florida

Raymond Randall Quirk

##### Principal Business Affiliation

President, Agency Operations  
Fidelity National Title Group

Executive Vice President and Chief Financial  
Officer  
Fidelity National Title Group

Chief Executive Officer

Name and Residence

Jacksonville, Florida

Principal Business Affiliation

Fidelity National Title Group

Principal OfficersNameTitle

Raymond Randall Quirk

President and Chief Executive Officer

Christopher Abbinante

President, Eastern Operations

Roger Scott Jewkes

President, Western Operations

Erika Meinhardt

President, National Agency Operations

Edward John Dewey

Executive Vice President and  
Chief Administrative Officer

Thomas Edgar Evans, Jr.

Executive Vice President

Harry Statten Geer, Jr.

Executive Vice President and  
Divisional Manager

Anthony John Park

Executive Vice President and  
Chief Financial Officer

Peter Tadeusz Sadowski

Executive Vice President

Alan Lynn Stinson

Executive Vice President

Gary Robert Urquhart

Executive Vice President and General Counsel

Edward Andersen

Senior Vice President

Kenneth J. Aran

Senior Vice President and Claims Counsel

Kristin V. Bellouny

Senior Vice President and Counsel

Management Agreements

Master Services Agreement: On March 12, 2003, the Company and certain affiliates entered into a Master Services Agreement with its ultimate parent, Fidelity National Financial, Inc. (FNF). Under the terms of the agreement, the Company receives from affiliates the following services: underwriting, claims settlement, payroll, legal, advertising, investment services, administrative and personnel services, and information technology. Compensation for services is limited to reimbursement of actual expenses and is payable to the affiliates providing the services. For 2004, 2005 and 2006, amounts paid by the Company for services received amounted to \$22,845,465, \$15,463,500, and \$13,823,582, respectively. The California Department of Insurance (CDI) approved this agreement on March 11, 2003.

Personal Property Lease Agreement: The Company and certain affiliates are parties to a Personal Property Lease Agreement with its affiliate, Fidelity Assets Management, Inc. (FAMI), effective April 1, 2002. Under the terms of the agreement, the Company and certain affiliates lease personal property from FAMI for title research. The allocation of the lease payments between the Company and its affiliates is based on the cost of the personal property used. The fees paid by the Company for 2004, 2005 and 2006 amounted to \$836,319, \$300,695, and \$175,106, respectively. This agreement was approved by the CDI on December 21, 2001.

Cost Sharing Agreement: The Company and certain affiliates are parties to a Cost Sharing Agreement with its affiliate, Rocky Mountain Support Services, Inc. (RMSS), effective March 4, 2005. Under the terms of the agreement, RMSS updates, maintains and manages the title plants owned by the Company. In return, the Company reimburses RMSS its portion of the actual cost and expenses incurred. For 2004, 2005 and 2006, the Company paid \$3,951,688, \$4,625,908, and \$3,482,283, respectively. The CDI approved this agreement on February 24, 2005.

Tax Sharing Agreement: The Company and its affiliates are parties to a Tax Sharing Agreement with FNF and its subsidiaries, effective August 20, 2004. Under the terms of the agreement, the allocation of taxes is based on each entity's own separate income tax return. The tax settlement with FNF is made within thirty days of the filing of the consolidated return. The amount of taxes paid by the Company for 2004, 2005 and 2006, amounted to \$5,331,354, \$4,259,682, and \$2,758,157, respectively. The Company submitted this agreement for approval to the CDI on May 14, 2008. The agreement is being reviewed by the CDI.



## CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter that fact in the board minutes. These requirements were not documented in the Company's board minutes. It is recommended that the Company implement procedures to comply with CIC Section 735.

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to transact title insurance business. The Company also provides escrow and other services to real estate property buyers and mortgage lenders. The following is a listing of the states in which the Company is licensed:

Alabama	Idaho	Montana	South Dakota
Alaska	Illinois	Nebraska	Tennessee
Arizona	Indiana	Nevada	Texas
Arkansas	Kansas	New Hampshire	Utah
California	Kentucky	New Jersey	Vermont
Colorado	Louisiana	New Mexico	Virginia
Connecticut	Maine	North Carolina	Washington
Delaware	Massachusetts	Ohio	West Virginia
Florida	Michigan	Oklahoma	Wisconsin
Georgia	Mississippi	Pennsylvania	
Hawaii	Missouri	South Carolina	

The Company issues title insurance policies through direct operations, a network of both affiliated and non-affiliated title agents, and underwritten title companies.

During 2006, the Company wrote approximately \$90.9 million of direct premiums. Of the direct premiums written, \$22.5 million (24.8%) was written in Arizona, \$20.5 million (22.6%) was written in California, \$8.9 million (9.9%) was written in Michigan and the remaining premiums were written in other states.

### GROWTH OF COMPANY

The Company has experienced a considerable decrease in growth after the examination period as shown in the following schedule:

Year or Quarter	Direct Premiums Written	Net Operating Gain or (Loss)	Net Income
2004	\$ 94,697,509	\$ 9,972,805	\$ 29,350,686
2005	81,168,490	3,143,192	12,108,164
2006	90,969,194	3,399,915	9,714,694
2007	63,557,688	(5,756,604)	3,611,410
2008 (1 <sup>st</sup> Qtr)	8,004,562	160,314	317,951

The decline in the Company's growth is attributable to the state of the title insurance industry, which is susceptible to economic cycles and financial impacts relevant to the real estate market. In the past, the Company has benefited from the boom in the real estate market with a sound volume of sale transactions and refinancing activity. However, under the current financial markets, a tightening has occurred in response to the subprime lending issue and the increase in foreclosures which has resulted in a slowdown in the mortgage and real estate markets. The slowdown has resulted in a dampening effect on the Company's operations.

In response to market conditions, the Company has sought to reduce its head count as activity in its title segment declined.

## REINSURANCE

### Assumed

The Company assumes a relatively small amount of business as compared to its direct writings (less than one percent). The majority of the assumed transactions are on a facultative basis.

### Ceded

The Company cedes a relatively small amount of business as compared to its direct writings (less than one percent). The majority of the ceded reinsurance premium resulted from facultative transactions.

The Company is party to a Title Excess of Loss Reinsurance Contract entered into by its ultimate parent, Fidelity National Financial, Inc. (FNF) with various reinsurers. Coverage also applies to other subsidiaries and affiliates of FNF. The contract provides coverage on a loss occurrence basis for the Company and its affiliates regardless of the number of policies contributing to the ultimate net loss. The following is a summary of the reinsurance contract as of December 31, 2006:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
1 <sup>st</sup> Excess of Loss	<u>Lloyds Underwriter Syndicates: (*)</u> Various Syndicates – 63% <u>Bermuda Markets: (*)</u> AXIS Specialty Limited – 16% IPCRe Limited – 8.5% XL Re Ltd – 2.5% <u>Other Foreign: (*)</u> Muchener Ruckversicherungs – 10%	\$10 million	\$10 million

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
2 <sup>nd</sup> Excess of Loss	<u>Lloyds Underwriter Syndicates: (*)</u> Various Syndicates – 48% <u>Bermuda Markets: (*)</u> AXIS Specialty Limited – 15% IPCRe Limited – 8% Montpelier Reinsurance Ltd – 5% XL Re Ltd – 4% <u>Other Foreign: (*)</u> Muchener Ruckversicherungs – 10% Aspen Insurance UK Limited – 10%	\$20 million	\$20 million
3 <sup>rd</sup> Excess of Loss	<u>Lloyds Underwriter Syndicates: (*)</u> Various Syndicates – 38% <u>Bermuda Markets: (*)</u> AXIS Specialty Limited – 20% IPCRe Limited – 10% Montpelier Reinsurance Ltd – 7.5% XL Re Ltd – 7% <u>Other Foreign: (*)</u> Muchener Ruckversicherungs – 10% Various Others – 7.5%	\$20 million	\$20 million

(\*) Reinsurance program utilizes the services of Guy Carpenter & Company, Inc., as a reinsurance intermediary.

### ACCOUNTS AND RECORDS

This examination experienced difficulties obtaining certain supporting documentation for the Company's information systems. While the Company provided timely information in response to most routine requests, certain requests for various user listings, evidence of testing and monitoring, documentation of approvals and user access restrictions were delayed. It is recommended that the Company maintain documentation to support its controls over its information systems and have it easily accessible for future review.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2003 through December 31, 2006

Statement of Financial Condition  
as of December 31, 2006

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 43,607,112	\$	\$ 43,607,112	
Stocks:				
Common stocks	29,481,711		29,481,711	
Mortgage loans on real estate:				
First liens	218,855		218,855	
Cash, cash equivalents and short-term investments	9,503,672		9,503,672	(1)
Receivables for securities	85,219		85,219	
Title plant	15,560,286	509,339	15,050,947	
Investment income due and accrued	585,442		585,442	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	2,164,155	1,103,632	1,060,523	
Current federal and foreign income tax recoverable	1,811,315		1,811,315	
Net deferred tax asset	3,904,210	3,023,555	880,655	
Furniture and equipment	4,169	4,169		
Receivables from parent, subsidiaries and affiliates	4,872,029		4,872,029	
Aggregate write-ins for other than invested assets	<u>525,337</u>	<u>525,337</u>		
Total assets	<u>\$ 112,323,512</u>	<u>\$ 5,166,032</u>	<u>\$ 107,157,480</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Known claims reserve			\$ 7,660,070	(2)
Statutory premium reserve			23,222,670	(2)
Other expenses			4,873,437	
Taxes, licenses and fees			3,556,287	
Amounts withheld or retained by company for account of others			557,762	
Payable to parent, subsidiaries and affiliates			<u>483,986</u>	
Total liabilities			40,354,212	
Common capital stock		\$ 30,250,000		
Gross paid-in and contributed surplus		12,777,384		
Unassigned funds (surplus)		<u>23,775,884</u>		
Surplus as regards policyholders			<u>66,803,268</u>	
Total liabilities, surplus and other funds			<u>\$ 107,157,480</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2006

Statement of Income

Operating Income

Title insurance and related income:

Title insurance premiums earned	\$ 90,438,447
Escrow and settlement services	2,023,972
Other title fees and service charges	<u>1,739,707</u>

Total Operating Income 94,202,126

Deductions:

Losses and loss adjustment expenses incurred	\$ 6,131,495
Operating expenses incurred	<u>84,670,716</u>

Total operating deductions 90,802,211

Net operating gain 3,399,915

Investment Income

Net investment income earned	\$ 7,650,952
Net realized capital gains	<u>343,308</u>

Net investment gain 7,994,260

Net income before federal income taxes	11,394,175
Federal and foreign income taxes incurred	<u>1,679,481</u>

Net income \$ 9,714,694

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005 \$ 63,223,090

Net income	\$ 9,714,694
Net unrealized capital gains	847,870
Change in net deferred income tax	(560,355)
Change in nonadmitted assets	1,500,554
Dividends to stockholders	(10,000,000)
Aggregate write-ins for gains in surplus	<u>2,077,415</u>

Change in surplus as regards policyholders for the year 3,580,178

Surplus as regards policyholders, December 31, 2006 \$ 66,803,268

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2003 through December 31, 2006

Surplus as regards policyholders, December 31, 2003,  
per Examination \$ 63,996,280

	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net income	\$ 51,173,544	\$
Net unrealized capital losses		15,880,558
Net deferred income tax		576,382
Change in non-admitted assets	7,741,840	
Change in accumulated dividends		43,158,355
Aggregate write-ins for gains in surplus (*)	<u>3,506,899</u>	<u></u>
Totals	<u>\$ 62,422,283</u>	<u>\$ 59,615,295</u>

Net increase in surplus as regards policyholders for the examination 2,806,988

Surplus as regards policyholders, December 31, 2006,  
per Examination \$ 66,803,268

- (\*) This gain in surplus was the result of three items. During the examination period the Company made adjustments to accrued pension and other post retirement benefit plans resulting in a decrease to surplus of \$204,270. During 2004, the Company made a statutory premium reserve augmentation resulting in a gain to surplus of \$796,297. During 2005, the Company made a correction to an error in the presentation of the change in non-admitted deferred tax assets, resulting in a gain to surplus of \$2,914,872.



## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Cash, Cash Equivalents and Short-Term Investments

A review of the above captioned accounts disclosed that the Company maintains a portion of its short-term investments in Blackrock Provident Institutional Funds (Blackrock). Blackrock, located in Delaware, is not a qualified custodian or sub-custodian as defined under California Insurance Code (CIC) Section 1104.9. It is recommended that the Company comply with CIC Section 1104.9 by maintaining its assets in California with a qualified custodian.

### (2) Known Claims Reserve and Statutory Premium Reserve

A Casualty Actuary from the California Department of Insurance evaluated the Company's reserves for known claims and statutory premium. The reserves were determined to be reasonable.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Corporate Records (Page 7): It is recommended that the Company implement procedures in its board meetings to ensure compliance with CIC Section 735.

Accounts and Records (Page 10): It is recommended that the Company maintain documentation to support its controls over its information systems and have it easily accessible for future review.

Comments on Financial Statement Items - Cash, Cash Equivalents and Short-Term Investments (Page 15): It is recommended that the Company comply with CIC Section 1104.9.

### Previous Report of Examination

Federal Income Tax Allocation Agreement (Page 6): It was noted that the Company did not obtain the approval of the California Department of Insurance (CDI) for the tax allocation agreement. This agreement was submitted to the CDI on May 14, 2008.

## ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Gregory J. Lieber, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California